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Realty Capital Corp. Limited

A BACKGROUND REVIEW FOR FINANCIAL EDITORS AND SECURITY ANALYSTS



EDWARD PARKER PUBLIC RELATIONS LIMITED
P.O. BOX 158, TORONTO-DOMINION CENTRE • TORONTO 1, CANADA • 366-8957

Realty Capital Corp. Limited is a holding company which, through its operating subsidiaries, is engaged in the savings and loan, mortgage financing and real estate fields. Total assets of the company, including those of a recent acquisition, Federal Savings and Loan Corporation, amount to approximately \$44 million. The combined capital base of the group, as at September 30, 1971, was \$4.2 million with shareholders' equity of \$1.99 million (both being unaudited figures).

From 1965 to 1969, net earnings rose consistently, from \$43,500 to \$116,200. In 1970, however, earnings decreased to \$80,700 owing primarily to a change in interest rates and a general softening within the real estate sector that year. Results for the nine months ended September 30, 1971, indicate a resumption of Realty Capital's growth trend, with profits for the period rising 155% to \$221,738. Revenue was \$2,425,878, up 166% over the same period last year.

Dividends on the outstanding Class A shares of the company are both preferred and cumulative and are currently at the annual rate of 20¢, payable quarterly. Class A shares are also participating in any additional dividends distributed, after payment of a 20¢ dividend on common shares. In fiscal 1971, the regular 5¢ quarterly dividend on class A shares was paid, totalling 20¢. A 20¢ dividend was also declared on the outstanding common shares.

SIX YEAR FINANCIAL SUMMARY

	1971 (9-mo.)	1970	1969	1968	1967	1966	1965
Total income	\$ 2,425,878	\$ 1,208,171	\$ 544,358	\$ 467,556	\$ 383,833	\$ 354,613	\$ 276,043
Cost of borrowing	1,398,519	585,224	158,648	151,927	155,144	166,788	128,348
	<u>1,027,359</u>	<u>622,947</u>	<u>385,710</u>	<u>315,629</u>	<u>228,689</u>	<u>187,825</u>	<u>147,695</u>
Operating expenses	671,035	436,768	170,326	131,664	100,047	79,173	62,834
Earnings before taxes and minority interest	356,324	186,179	215,384	183,965	128,642	108,652	84,861
Provision for taxes	105,683	92,500	109,000	87,486	56,756	46,703	34,284
Earnings after taxes	250,641	93,679	106,384	96,479	71,886	61,949	50,577
Minority interest	(28,903)	(12,995)	—	—	—	—	—
Adjustments*	—	—	9,831	4,635	2,881	(7,332)	(7,040)
Net earnings	<u>\$ 221,738***</u>	<u>\$ 80,684</u>	<u>\$ 116,215</u>	<u>\$ 101,114</u>	<u>\$ 74,767</u>	<u>\$ 54,617</u>	<u>\$ 43,537</u>
Number of shares outstanding:							
Class A	306,375	306,375	306,375	30,500**	30,000**	30,000**	30,000**
Common	174,400	174,400	174,400	174,400**	174,400**	174,400**	174,400**
Dividends per share:							
Class A	15¢	20¢	15¢	15¢**	15¢**	15¢**	15¢**
Common	—	20¢	—	—	—	—	—
Earnings per share:							
Class A	46¢***	20¢	28¢	49¢**	37¢**	27¢**	21¢**
Common	46¢***	11¢	28¢	49¢**	37¢**	27¢**	21¢**
Fully diluted earnings per share:							
Class A	31¢***	20¢	23¢	30¢**	—	—	—
Common	31¢***	6¢	23¢	30¢**	—	—	—
Equity per Class A & Common	\$4.13	\$3.77	\$3.80	\$3.57	\$3.09	\$2.75	\$2.50
Shareholders equity*	\$ 1,987,330	\$ 1,811,549	\$1,827,020	\$ 730,989	\$ 632,394	\$ 562,127	\$ 511,760
Mortgages receivable	\$27,786,263	\$ 9,556,142	\$3,323,373	\$2,548,828	\$2,477,734	\$2,937,831	\$2,944,340
Land under development	\$ 3,123,946	\$ 2,962,252	\$2,661,416	\$ 114,335	—	—	—
Total assets*	\$43,971,774	\$15,558,732	\$6,738,801	\$3,258,394	\$3,244,927	\$3,378,906	\$3,240,283

* Adjusted for company's share in earnings (losses) of County Savings and Loan Corporation

** Adjusted for 2 for 1 split in January, 1969

*** Includes extraordinary item of \$73,000 representing reduction in income taxes due to losses carried forward from prior years.

SHARE CAPITALIZATION

As at September 30, 1971, the capital stock of Realty Capital Corp. Limited was:

	Authorized	Outstanding	Par Value
Class A	1,000,000	306,375	n.p.v.
Common	360,000	174,400	n.p.v.

Reserved for exercise of warrants: 295,000 Class A shares

Reserved for conversion of debentures: 102,596 Class A shares

Options: None outstanding

OPERATIONS

Operations of Realty Capital Corp. are carried out in three distinct business areas and are managed through subsidiaries acting as separate profit centres: savings and loan activities, through County Savings and Loan Corporation and Federal Savings and Loan Corporation; mortgage and interim financing, through both Warchester Investments Limited and Commodore Investments Limited; real estate and land development, through Realty Capital Investments (Central) Limited.

In 1970, the savings and loan division, operating solely through County Savings and Loan Corporation, accounted for 56.6% of total revenue. The mortgage financing division and the real estate and land development division contributed 32.9% and 10.5%, respectively. Following the acquisition of Federal Savings and Loan Corporation, accounts of this company were for the first time consolidated in the second quarter of fiscal 1971. The contribution of the savings and loan division to total income has risen substantially, to approximately 83% for the nine months ended September 30, 1971.

The company is now in a position, through its subsidiaries, to offer builders and other borrowers a comprehensive financial service, including: interim financing, both conventional and N.H.A.; mortgage lending; permanent secondary financing; consumer lending.

SAVINGS AND LOAN DIVISION

County Savings and Loan Corporation (54% owned) and Federal Savings and Loan Corporation (98% owned) provide savings and chequing account services to customers, sell investment certificates and make consumer and personal loans through a total of seven branch offices in Metropolitan Toronto. Both companies are members of the Canada Deposit Insurance Corporation, are Approved Lenders under the National Housing Act and can initiate and/or service mortgages guaranteed by Central Mortgage and Housing Corporation.

Subject to approval by shareholders of the two companies, and of appropriate governmental agencies, it is management's intention to combine the operations of these subsidiaries. With the assent of regulatory authorities, it is also the intention to broaden their areas of operation to include real estate agency sales and management services, mortgage banking and management and an expansion of consumer lending.

MORTGAGE AND INTERIM FINANCING DIVISION

Operating through Warchester Investments Limited and Commodore Investments Limited, the mortgage and interim financing division provides funds for first and second mortgages covering residential, commercial and industrial properties. It also provides short term 'bridge' financing (usually one year or less) for construction projects and real estate development and acts as banker and syndicator/manager for large mortgages.

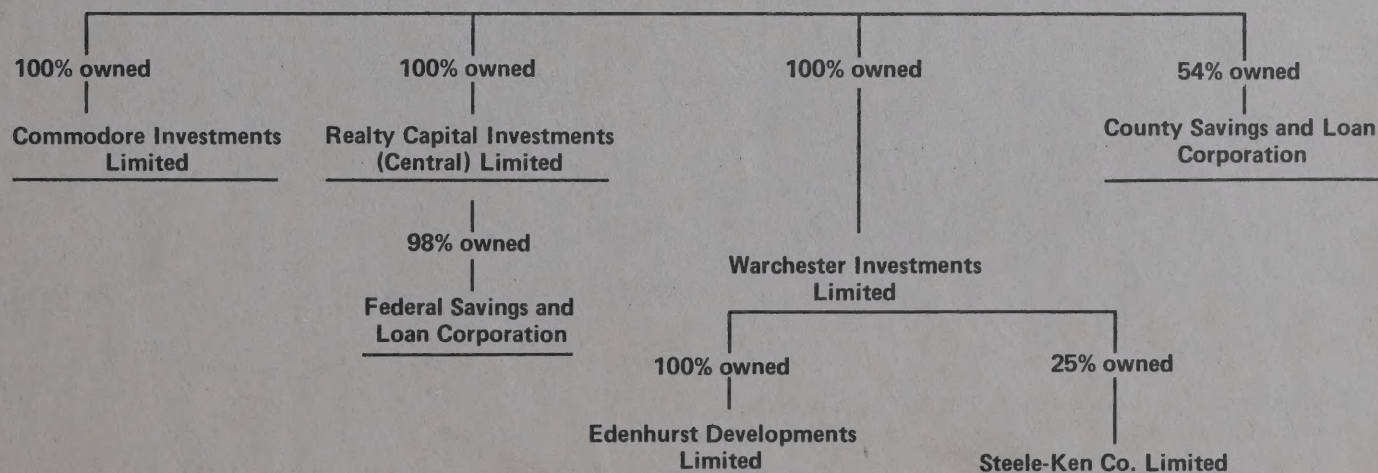
Earnings from these activities are derived from the spread between the company's own financing costs and effective rates charged to clients, which currently average between 12% and 14% annually. In addition, the division also generates revenue from mortgage management fees.

REAL ESTATE, LAND DEVELOPMENT DIVISION

This division is active principally through Realty Capital Investments (Central) Limited in the purchase, development and resale of improved and unimproved real estate and soon, to a limited extent, in residential and commercial construction. It also provides a real estate service under which the company acquires property, offers financial participation to outside parties and subsequently manages the development of that property on its own and its partners' behalf.

Prevailing economic conditions have restrained expansion of this division in recent months.

REALTY CAPITAL CORP. LIMITED



MANAGEMENT

The policies, procedures and limitations under which Realty Capital Corp. Limited operates are determined and authorized by its board of directors and are implemented through a senior management group.

The senior management group is headed by David S. Ades, B.Sc., A.M.C.T., president and general manager; Gerald Rose, S.R.A., vice-president; Roger Coe, C.A., treasurer; Con Di Nino, assistant general manager of Realty's savings and loan subsidiaries. Together, these men have extensive experience in all the companies' activities.

Working with this senior management group are supervisors of the accounting, mortgage, bond and securities and consumer loan departments who are responsible for operations within their respective fields.

In the mortgage and bond and securities departments, no investments are made without the approval of the respective management committees. This assures conformity to corporate policy.

Audits are conducted on a regular basis, both internally under the supervision of three chartered accountants and externally by the company's auditors, Clarkson, Gordon & Co. The latter firm is also auditor for all subsidiaries of Realty Capital Corp. Limited.

In addition to those already mentioned, other key individuals within the management structure include: Irving Kneller, head of the mortgage department; Glen H. Morrow, supervisor of the consumer loan department; Robert Wormald, C.A., comptroller of Federal Savings and Loan Corporation; Raymond E. Mitchell, C.A., comptroller of Realty Capital Corp.

RECENT DEVELOPMENTS

In December 1971, Realty Capital Corp. made an offer to acquire the balance of shares of County Savings and Loan Corporation. Realty currently holds approximately 54% of the 116,100 shares outstanding. The offer, which is open until January 28, 1972, is on the basis of two Realty Capital Corp. Class A shares for each share of County Savings and Loan Corporation.

OUTLOOK

The acquisition, in April, 1971, of a 98% interest in Federal Savings and Loan Corporation establishes Realty Capital's growing orientation toward the savings and loan field. Through this move, the company has sharply increased its total assets to more than \$40 million and is able to more vigorously participate in an expanding financial area.

Concurrent with the expected expansion in the savings and loan division, the company is encouraged by prospects of the mortgage and real estate divisions in light of population growth trends and the likely stimulating, long range effect on the real estate market.

CORPORATE INFORMATION

Directors:	David S. Ades, B.Sc., A.M.C.T. Jeanne Ades Ralph E. Ades Roger I. Coe, C.A. Roland B. Dodwell	William G. Durst, F.R.I. Pierre Genest, Q.C. Gerald Rose, S.R.A. Peter Schlesinger Robert E. Smith
Officers:	Ralph E. Ades, Chairman David S. Ades, B.Sc., A.M.C.T., President and General Manager Gerald Rose, S.R.A., Vice-President	Roger I. Coe, C.A., Treasurer Gordon G. Dickson, Secretary Raymond E. Mitchell, C.A., Comptroller
Auditors:	Clarkson, Gordon & Co., Toronto Chartered Accountants	
Trustees and Transfer Agents:	Guaranty Trust Company of Canada, Toronto Common Shares and Secured Certificates	Montreal Trust Company, Toronto Class A Shares and Subordinated Debentures
Bankers:	Royal Bank of Canada, Toronto Canadian Imperial Bank of Commerce, Toronto Mercantile Bank of Canada, Toronto	
Legal Counsel:	Cassels, Brock, Toronto Barristers and Solicitors	

Class A shares and warrants of the company are listed on the Toronto Stock Exchange. Ticker symbols are RLY.A and RLY.WT.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Six Months Ended
June 30

	1972	1971**
Sources:		
Earnings for the period*	\$ 271,971	\$ 147,182
Increase in mortgagors' tax deposits		197,679
Increase in bank loans and short term note		1,680,000
Increase in deposits and debentures	4,524,193	24,598,908
Issue of Treasury shares	433,365	
Net other sources (dispositions)	13,806	(14,601)
	<u>\$5,243,335</u>	<u>\$26,609,168</u>
Dispositions:		
Increase in mortgages receivable less unamortized discounts and placement fees thereon	\$3,594,957	\$17,131,489
Increase in bank, deposit receipts and securities	401,428	8,510,884
Decrease in bank loans	70,000	
Increase in real estate held for development and/or sale and investment in joint venture	122,850	98,638
Increase in premises and equipment	36,913	704,413
Reduction in mortgages payable	20,541	86,428
Reduction in mortgagors' tax deposits	123,793	
Increase in consumer and demand loans	356,852	
Excess of cost of shares in a subsidiary over net book value	21,967	
Dividends-Class A shares	41,989	30,638
Reduction of minority interest	304,449	
Repayment of long term debt	147,596	46,678
	<u>\$5,243,335</u>	<u>\$26,609,168</u>

* After adding back (deducting) depreciation, amortization of financing expenses, deferred income taxes and minority interest (1972 - \$31,534, 1971 - \$33,710).

** 1971 figures have been restated for year end adjustments and include assets and liabilities of Federal Savings and Loan Corporation acquired during the second quarter of 1971.

SUBSIDIARIES

Federal Savings and Loan Corporation

Branch Offices 141 Yonge Street,
Toronto 210

605 Danforth Avenue,
Toronto 275

950 St. Clair Avenue West,
Toronto 345

1850 Eglinton Avenue West,
Toronto 341

County Savings and Loan Corporation

Branch Offices 1224 St. Clair Avenue West,
Toronto 341

2070 Danforth Avenue,
Toronto 269

Commodore Investments Limited
Warchester Investments Limited
Realty Capital Investments (Central) Limited
Edenhurst Developments Limited

Head Office 141 Yonge Street,
Toronto 210

SERVICES AND FUNCTIONS

Savings Accounts	Consumer Loans
Chequing Accounts	Travellers Cheques
Current Accounts	First Mortgage Loans
Investment Certificates	Mortgage Management
Short-term Deposits	Mortgage Banking
Safety Deposit Boxes	Interim Construction Loans
Safe Keeping	Secondary Financing
Foreign Exchange	Land Development
Money Orders	Construction



REALTY CAPITAL CORP. LIMITED
141 Yonge Street, Toronto, Ontario

REALTY CAPITAL CORP. LIMITED

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INTERIM REPORT
for the six months ended June 30, 1972

To the Shareholders:

As anticipated, earnings of the company improved significantly during the first six months of 1972 with each division of the company showing increased profits.

Total assets increased by 16.6% from \$42,360,691 as at June 30, 1971 to \$49,383,676. Almost all of this growth was achieved in the Savings and Loan Division.

Total income in the six months ended June 30, 1972 rose sharply to \$2,131,707 from \$1,291,749 in the corresponding period last year. Part of this increase is accounted for by the fact that only three months' income from Federal Savings and Loan Corporation is included in the 1971 comparative figures.

Net earnings for the period were \$240,437 (including an extraordinary gain of \$20,000) compared to \$113,472. Earnings per Class A and Common share were both \$0.41 (\$0.38 excluding extraordinary gain) against \$0.24 in 1971, notwithstanding an increase in the number of shares outstanding.

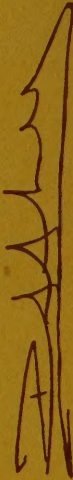
The progress of the Savings and Loan Division continued as planned. Combined total assets of the two subsidiaries increased by over \$7 million in the year while the combined net earnings rose to \$164,101. Net operating income for the second quarter was slightly higher than for the first quarter, although due to the fact that security gains were lower in the second quarter, net income for the second quarter was slightly down.

Interest rates appear to have stabilized, and I anticipate that they will remain stable for the balance of the year. As a result of this and the concentration by management on improved utilization of available funds and on improving the mix of demand deposits relative to debentures, I feel that the assets and earnings of this division will continue to improve for the balance of the year.

The Real Estate Division also had a very satisfactory six months and completed the sale of a parcel of land in Mississauga (Numbered 5 on Page 9 of the 1971 Annual Report) resulting in income of \$111,670. As mentioned in previous reports, I anticipate further sales of land in 1972 and which with other planned projects should result in continued good earnings for this division in the years ahead.

The Interim, Bridge and Secondary Mortgage Financing Division had satisfactory results with gross income increasing to \$217,730 as compared to \$194,414 in 1971. Management has taken steps to further improve the income of this division, which should be reflected in increased income in the second half of the year.

Although the first six months of the year have been gratifying, I expect that the second half of 1972 will show in an even greater growth, both in assets and earnings of your company.



David S. Ades,
President.

August 14, 1972

CONSOLIDATED STATEMENT OF EARNINGS

(unaudited)

Six Months Ended
June 30

	1972	1971**
Total income	\$ 2,131,707	\$ 1,291,749
Interest	1,154,679	681,061
Administration expenses	556,057	380,506
Depreciation and amortization	28,093	20,410
Minority interest	3,441	13,300
Earnings before income taxes and extraordinary item	1,742,270	1,095,277
Income taxes	389,437	196,472
	169,000	83,000
Extraordinary item*	220,437	113,472
Net earnings for the period	\$ 240,437	\$ 113,472

*Reduction in income taxes due to losses and other items carried forward from prior years.
**1971 figures have been restated for year end adjustments.

Dividends paid on Class A shares	\$ 41,989	\$ 30,638
Number of shares outstanding*		
Class A	415,062	306,375
Common	174,400	174,400
Earnings per share**	589,462	480,775
Earnings before extraordinary item	\$0.38	\$0.24
Class A	\$0.38	\$0.24
Common		
Net earnings for the period	\$0.41	\$0.24
Class A	\$0.41	\$0.24
Common		
Fully diluted earnings per share**		
Earnings before extraordinary item	\$0.26	\$0.17
Class A	\$0.26	\$0.17
Common		
Net earnings for the period	\$0.28	\$0.17
Class A	\$0.28	\$0.17
Common		

*Weighted average of shares outstanding during period.

**1971 figures have been restated for year end adjustments.

Total assets	1972	1971
	\$49,383,676	\$42,360,691

As at June 30